

BKR MACRO-SCOPE WORLD ECONOMY JULY 2025



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SUMMARY

Global uncertainty surged in 2Q 2025 as the U.S. enacted its highest trade tariffs since the 1930s and the dollar sharply depreciated, signaling a shift in economic trust. World economy grew last quarter by the weakest pace since 4Q 2023 (according to the PMI Composite Indicator), amid trade tensions, high real financing costs, and persistent geopolitical tensions. Despite challenges, markets showed resilience, supported by tech investments and infrastructure plans. The IMF now forecasts global growth at 3.0% for 2025, below pre-pandemic norms. Authored by Andrei Rădulescu, a seasoned international macroeconomist with 20+ years' experience across Europe's financial sector. He is a senior researcher at the Institute for World Economy, Romanian Academy, member of prestigious international think tanks in several countries, and a regular speaker at economic forums across the world.

- In 2Q 2025 the world economy was confronted with the increase of uncertainty to unprecedented high levels, following the significant change in terms of trade policy in the USA, the largest economy in the world, weighing over 26% of the global output. From the structural point of view, it seems the world economy entered a period characterised by the fundamental change of trust, as the increase of the uncertainty was accompanied by a severe depreciation of the US dollar (over 10% in first half of 2025), as can be noticed in the Figure 1.

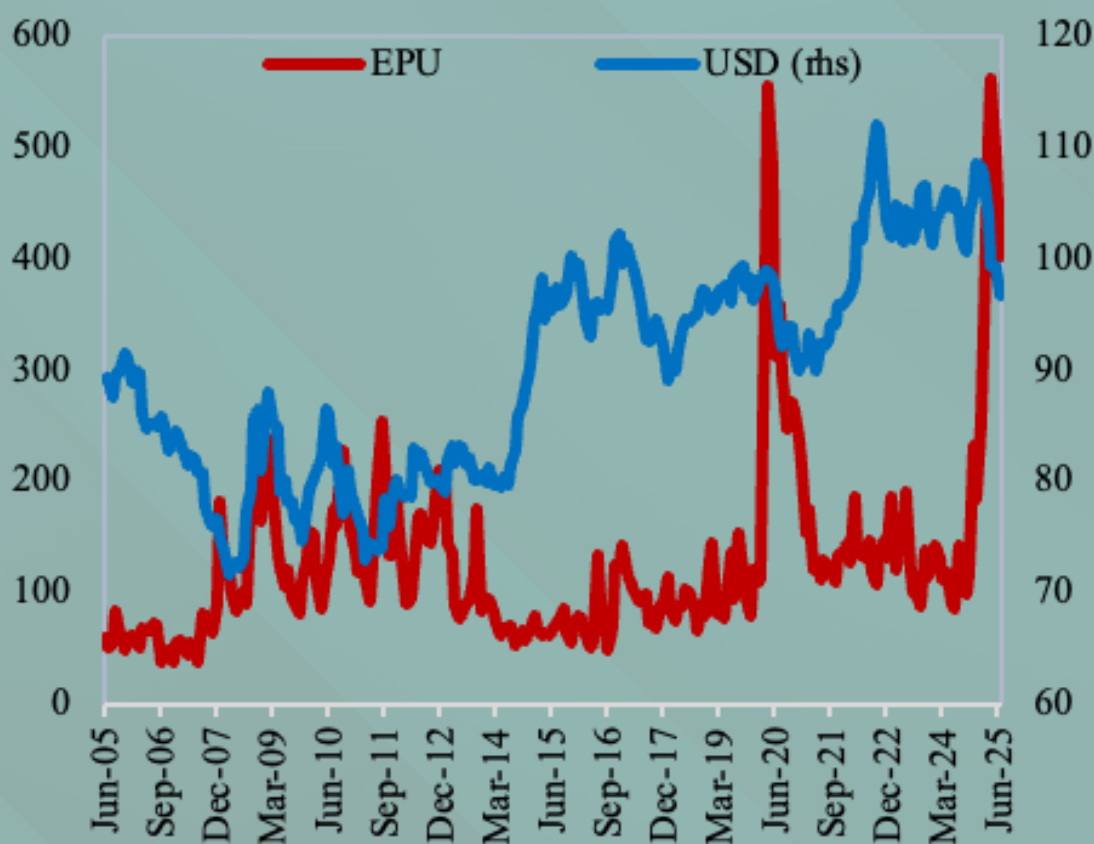


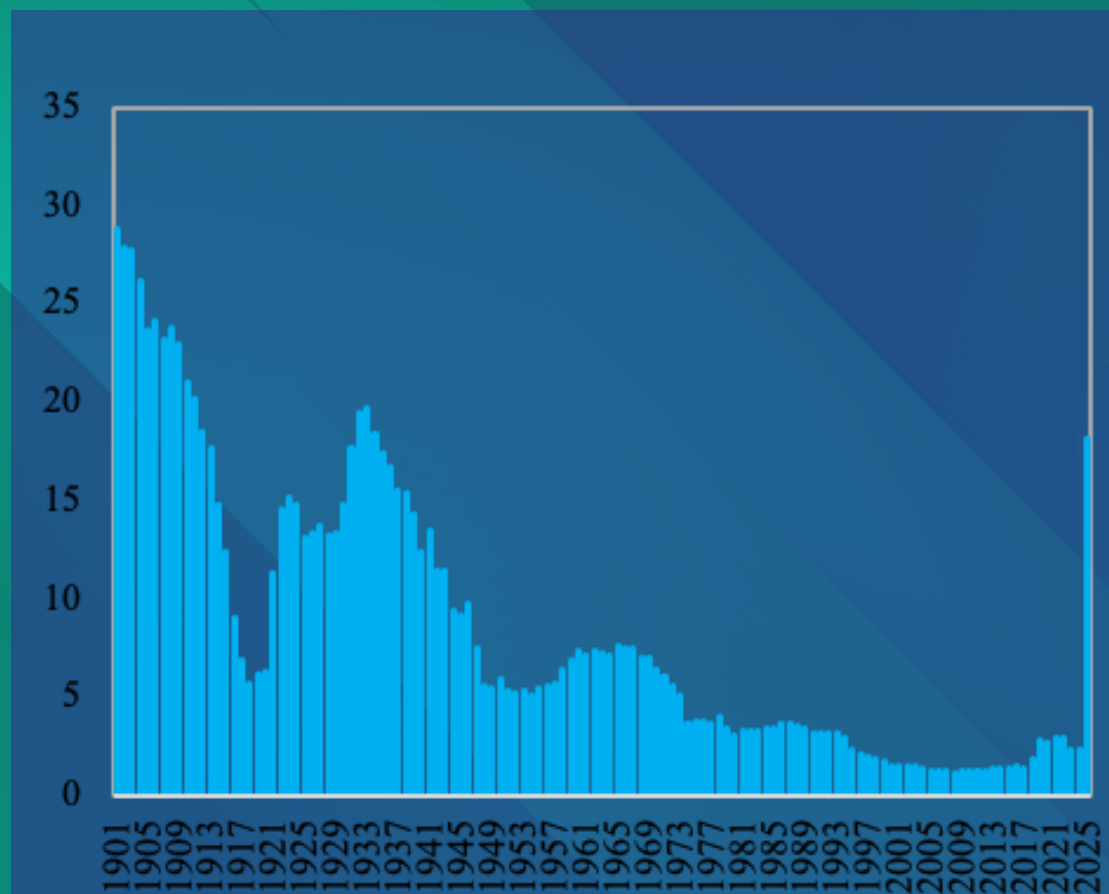
Figure 1:

Economic policy uncertainty index in the USA vs. the US dollar index

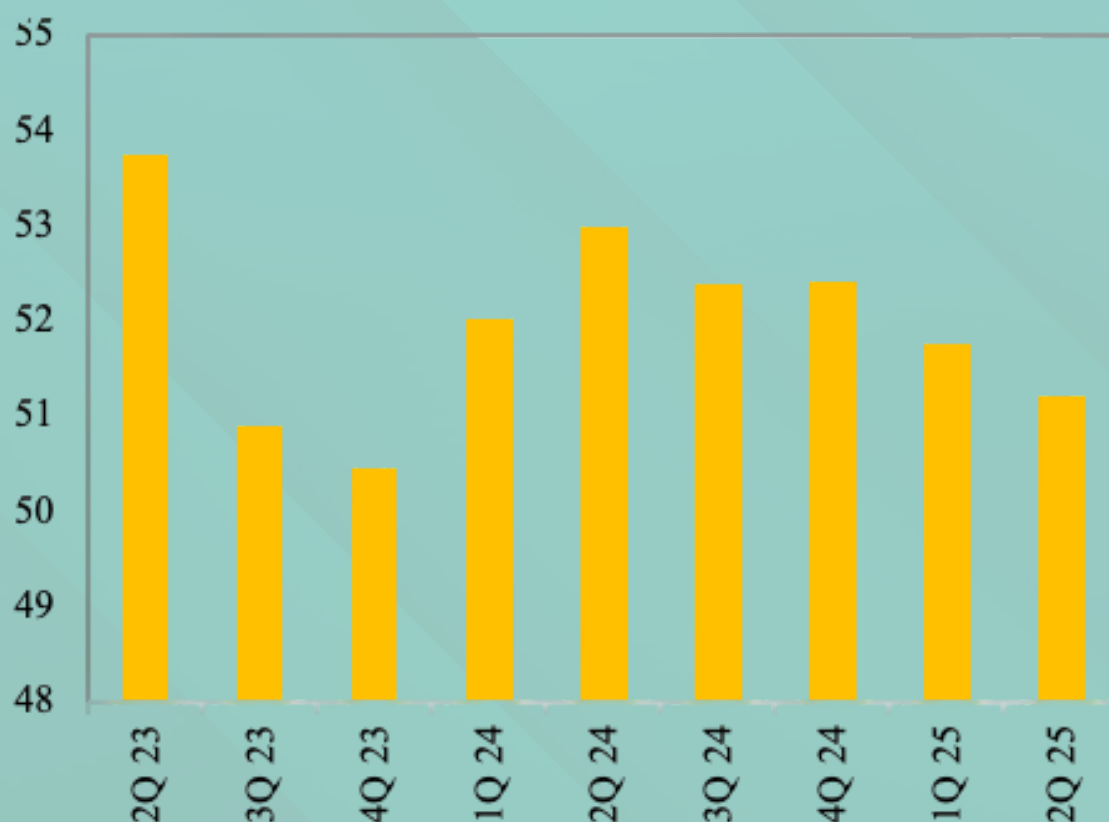
Source: Federal Reserve Saint Louis (FED), 2025

Figure 2:
Average annual trade
tariff in the USA (%)
Source: The Budget Lab,
Yale University, 2025

- Incorporating the US-EU trade deal reached by the Presidents of the USA and of the European Commission on 27th July, the overall average tariff applied by the USA at the imports of goods is estimated by The Budget Lab (TBL) at over 18%, the highest level since 1934, as reflected in the Figure 2.



- We point out that the USA represents the main destination for the EU goods, with a share of 20.6% (€532.8 billion) in 2024, according to Eurostat database. The value of EU goods exports to the USA advanced at an average annual rate of 4.5% between 2002 and 2024. During the same period, the EU imports of U.S. goods increased at a slower pace of just 4.1% per year, reaching €335 billion.



- The high level of uncertainty induced by the trade tensions and the persistence of the geopolitical tensions, corroborated with the upward trend for the real financing costs contributed to the slowing-down of the world economy in 2Q 2025, being recorded the weakest growth pace since 4Q 2023, according to the PMI Composite Indicator estimated by S&P Global on a monthly basis and represented in Figure 3.

Figure 3: The world PMI Composite Index (points)
Source: S&P Global, 2025

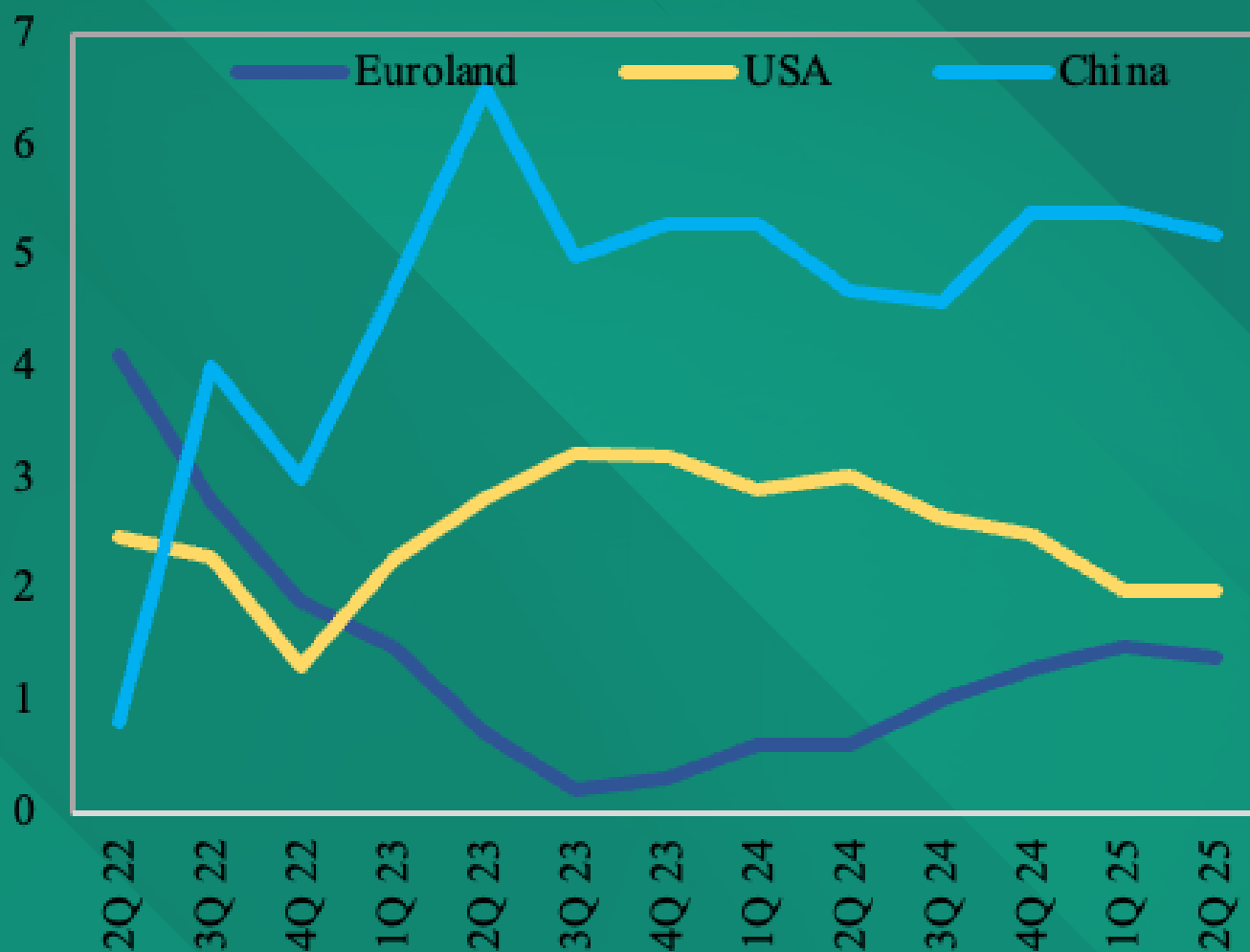


Figure 4: The volume of GDP (% Y/Y)
Sources: US Bureau of Economic Analysis,
National Bureau of Statistics of China, and Eurostat, 2025

- The gaps in terms of annual growth pace among the largest economies in the world (USA, China, and Euroland) maintained in 2Q, as represented by Figure 4.
- In the USA (where the nominal GDP outpaced USD 30tn) the annual growth pace consolidated at 2.0% in 2Q 2025, below potential and the weakest since 4Q 2022, according to the preliminary estimates of the Bureau of Economic Analysis. The intensifying uncertainty and the high level of the real financing costs generated the slowing-down of the fixed investments, towards the weakest annual rate since 2Q 2023 (2.2%). The Y/Y decline in investments in the residential and non-residential structures for the second quarter in a row signals a turning point in the economy.
- In China (the second largest economy in the world, with a forecasted nominal GDP above USD 19tn in 2025) the economic activity decelerated to 5.2% Y/Y in 2Q 2025, according to the preliminary estimates of the National Bureau of Statistics. This evolution was mainly determined by the slowing-down in industry, which is confronted with the challenges in international trade and in the domestic real estate market.

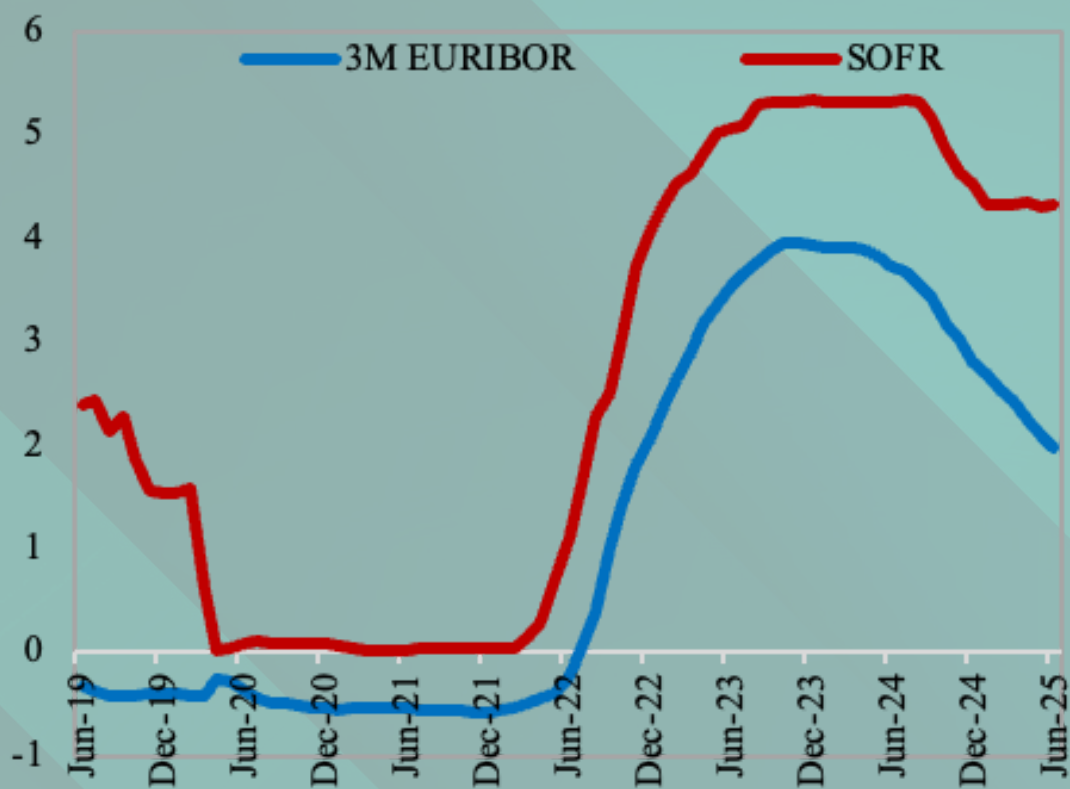


Figure 5:
Short-term interest rates in the USA (SOFR) and Euroland (3M EURIBOR)

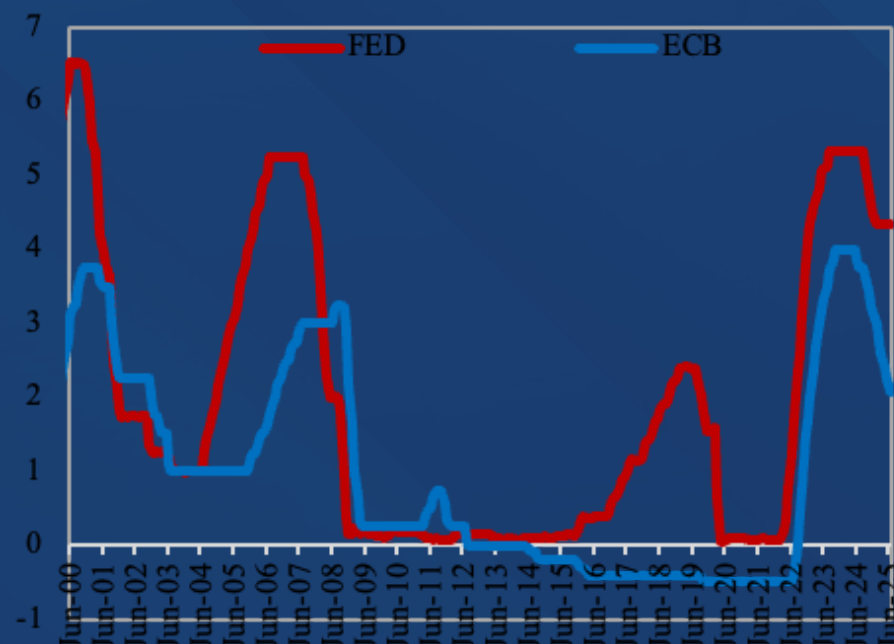
Sources: Federal Reserve Saint Louis (FED), Eurostat, 2025

- The annual growth pace also decelerated in Euroland in 2Q, to 1.4% (sa), according to the flash estimate of Eurostat. This growth continued to be generated last quarter mainly by the small and medium economies – Germany, France and Italy (generating over 60% of the GDP of the region) recorded Y/Y growth below 1%.

- As regards the financial side of the economy, there persisted the USA-Euroland divergence. There can be noticed the widening gap in terms of money market interest rates, between SOFR (USA) and 3M EURIBOR (Euroland), to over 2.2pps in 2Q 2025, the highest since 3Q 2019, as represented in the Figure 5.
- This was determined by the different stances in terms of monetary policy – FED interrupted the normalisation cycle, while ECB continued to cut the policy rate to 2%, the lowest level since December 2022, as can be noticed in the Figure 6.

Figure 6:
The monetary policy rate, FED vs. ECB (%)

Sources: Federal Reserve, Saint Louis (FED), European Central Bank (ECB), 2025



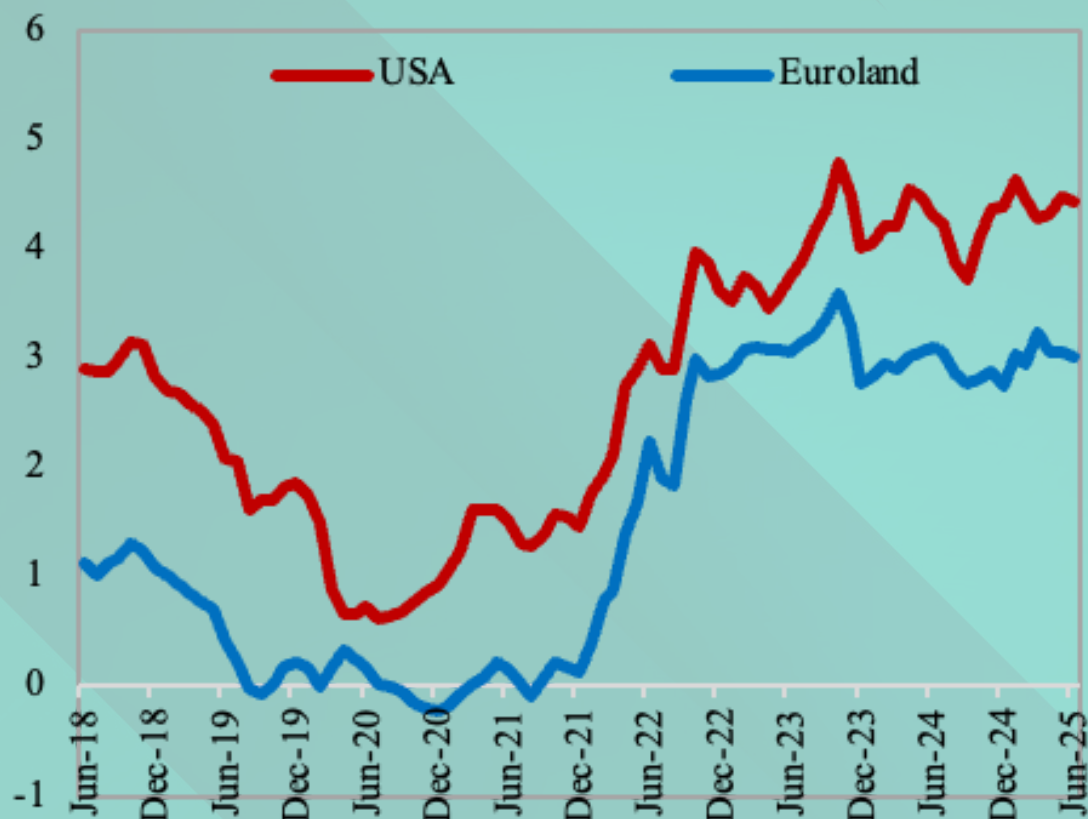


Figure 7: The yield on 10YR bonds (%)
Source: Eurostat, 2025

- Last, but not least, the gap in terms of yield on 10YR bonds (a benchmark for the financing costs in the economy) between the USA and the Euroland widened to 1.42pps in June, the highest level since Feb 2025, as presented in the Figure 7.
- On the other hand, there can be noticed the convergence of the stock markets in 2Q 2025, following the divergence in 1Q, as reflected in the Figure 8.
- Between the end of 2024 and the end of 2Q 2025 the Dow Jones Index rose by 3.6%, unperforming the EuroStoxx 50 Index (advance by 8.9%), another development confirming the fundamental change of trust, in the context of the new paradigm in terms of trade policy.
- Overall, the recent macro-financial developments confirm the fact that the global economy continued to show remarkable resilience in 2Q 2025, supported by the implementation of technological progress and the prospects for additional important investment plans in the largest economies in the world, in infrastructure (including R&D, etc).

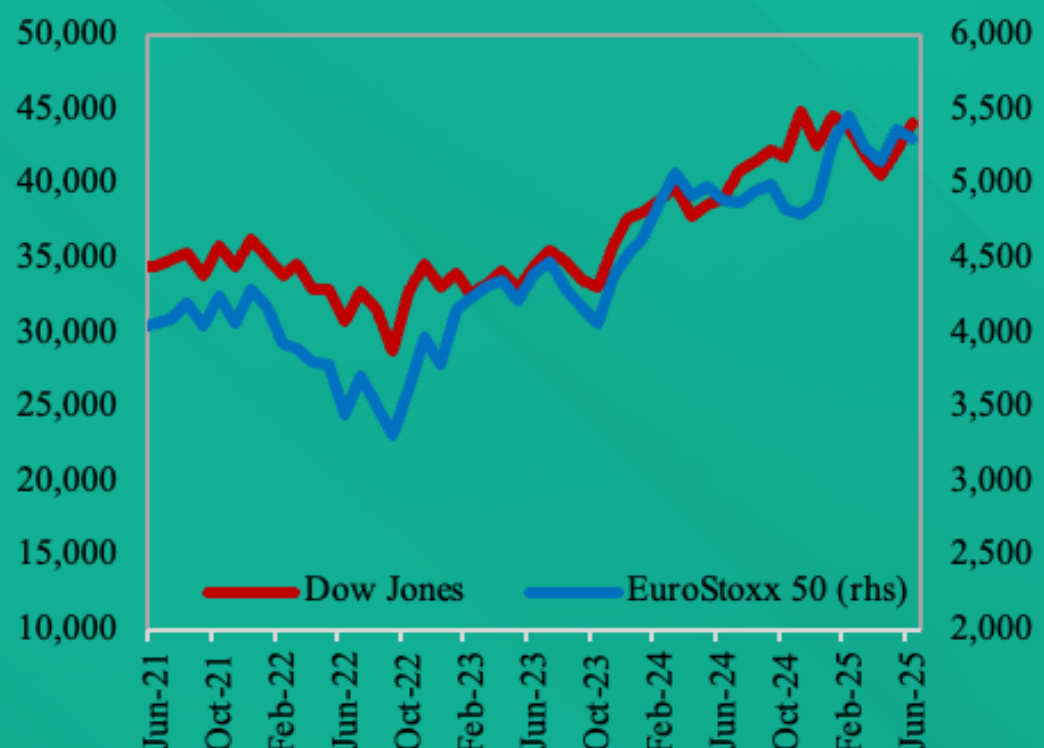


Figure 8: Dow Jones vs. EuroStoxx 50 (points)
Source: Investig.com, 2025

- According to the summer forecasts of the International Monetary Fund (IMF) the world economy would increase by annual rates of 3.0% in 2025, and 3.1% in 2026, below the pre-pandemic historical average of 3.7%, and also below the level of 2024 (3.3%).
- In this scenario the GDP in advanced economies may increase Y/Y by 1.5% in 2025 and 1.6% in 2026, below 1.8% in 2024.
- The emerging and developing countries would present annual growth rates of 4.1% in 2025 and 4.0% in 2026 (vs. 4.3% in 2024).
- Among the main risk factors for the world economy in the short-run we mention the persistence of trade tensions and geopolitical tensions, the high level of the real financing costs, the increasing public debt, and the possibility of severe adjustment of stock prices.

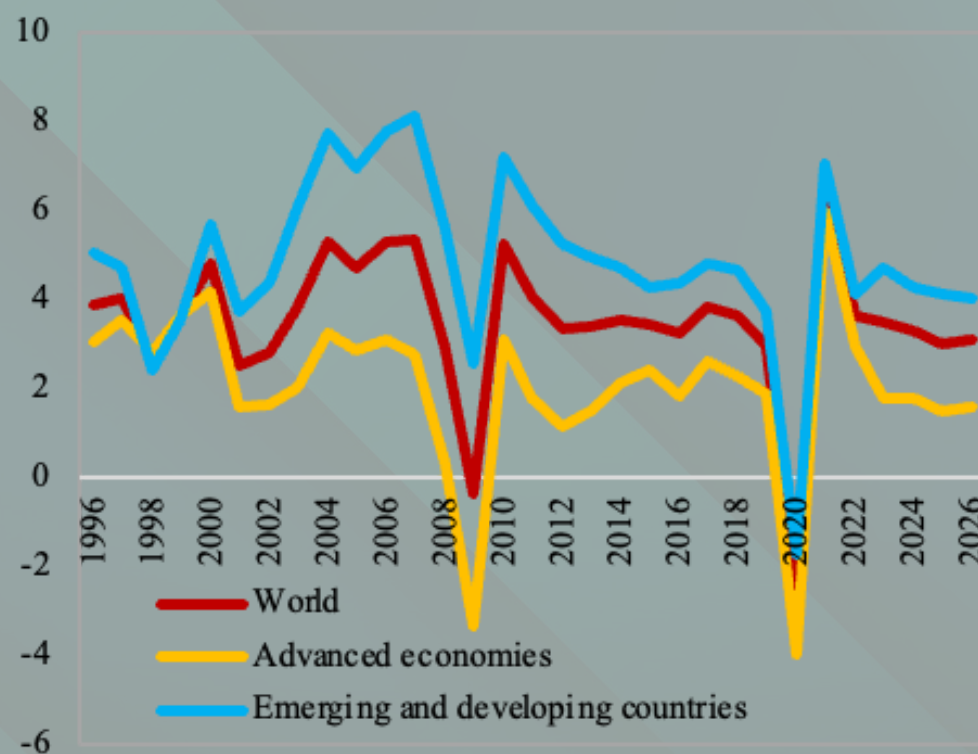


Figure 9:
The annual rate of GDP (%)
Source: International Monetary Fund (IMF), July 2025

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